The County of El Dorado

Chief Administrative Office

330 Fair Lane
Placerville, CA 95667-4197

Gayle Erbe-Hamlin
Chief Administrative Officer

Phone (530) 621-5530
Fax (530) 626-5730

May 29, 2009

Honorable Board Members:

Submitted for your review and consideration is the Chief Administrator's Proposed Budget for FY 2009-10. This budget is balanced through overall reductions in departmental budgets from Final Adopted FY 2008-09 Budget (including the deletion of 160 FTE), use of all tobacco settlement and some casino revenues, pay-as-you-go retiree health, termination of Aid to Fire contract and use of trust fund, elimination of the General Services Department, and a 10 day mandatory time off in order to meet reduced projections in revenue growth. Whether this budget maintains prudent levels of general reserves and contingencies in the significant fiscal uncertainty in which this budget is prepared is unclear given the condition of the State budget. Though the past year has been challenging the result of our efforts is that we ***are not*** significantly dependent on fund balance to support our baseline services in FY 2009-10 (using about $700K).

The following chart shows a few key economic indicators that are impacting us:

El Dorado County Economic Snapshot			
Median Price of Existing Homes Sold	$454,00 In March 2007	$357,000 In March 2008	$340,000 In March 2009
Total County Employment (Not Seasonally Adjusted)	87,000 in March 2007	86,200 in March 2008	82,800 in March 2009
Total County Unemployment	5.2% in March 2007	6.6% in March 2008	11.5% in March 2009
Single Family Building Permits (Single Family)	969 permits $301,203,987 in 2006	604 permits $215,801,698 in 2007	278 permits $74,703,648 in 2008
Data Sources: California Dept. of Motor Vehicles, California Association of Realtors, California Franchise Tax Board, California Employment Development Department, U.S. Census Bureau			

The Board has engaged in almost continuous budget discussions for the past year to address the change in our fiscal position as a result of the down trending economic conditions. The result of that dedication and the follow through of departments in meeting their targeted NCC is that we have successfully navigated a reduction of almost 9% in our General Fund for a total decrease of $20 million and $62 million overall. We are still standing, however some of our operations are only just holding on. Some programs are functioning on minimal staffing levels. Where the next round of reductions will come from will be extremely challenging. Unfortunately, all information from Sacramento indicates that significant cuts to counties are inevitable.

The County's Record of Fiscal Decisions since adoption of Final FY 08-09 Budget in September 2008:

We have closed a significant gap over the past year and we are not facing a crisis like a number of other public agencies given our prudent financial decisions of the past year:

- Reduced the overall budget by $62 million and the general fund by $20 million
- Eliminated 160 positions and implemented a hiring freeze
- Incorporated FY 2008-09 mid year adjustments into FY 2009-10
- Instituted a voluntary furlough program
- Mandatory time off during FY 2008-09 of 3-10 days for a number of departments
- Eliminated 7% Sheriff stipend
- Closed satellite offices and consolidated current county facilities
- Transferred General Services Department functions to DOT and EMD for an annual savings of $600K
- Merged Public Health and Mental Health/new leadership addressing past practices, current and future challenges
- Rate holiday for prefunding retiree health benefits
- Tobacco settlement funds committed for on going operations

In addition to the decisions described above, the Proposed Budget contains an across the board 10 day mandatory time off (furlough) value of $2.4 million. For those departments that can close we are recommending a seven day closure over the Christmas/New Years weeks with the remaining days to be taken at the discretion of the employee. County payroll is ready to implement the furlough through 26 pay periods so that the employee's loss of 4% of their salary is spread out over a year. The budget recommends an across the board furlough even though we have some program's that are fully federally and state funded and therefore will have no real savings to the County. Given this time of fiscal uncertainty and the need to build a sense of team, I feel that this is not the time for haves and have nots. Additionally, there is concern to keep offices open for extended periods when key support services such as IT, facilities and HR are not available to respond to emergency needs.

This budget is submitted during the prolonged ongoing negotiation of the State's FY 2009-10 budget. With the rejection by the voters of the May 19th propositions, the State is facing anywhere from a $21 billion (Governors estimate) to $24 billion (LAO estimate) deficit for FY 2009-10. Already we have heard that Proposition 1A is likely to be suspended and local property tax is anticipated to be borrowed by the State. The total amount the State could borrow is calculated on eight percent of property tax revenues received by cities, counties and special districts in FY 2008-09 though the language is not clear how that would be apportioned. The County's share could be approximately $6.3 million. Prop 1A requires that the funds be repaid within three years. However, there is no real enforcement mechanism, other than that the state cannot borrow from local governments again unless the original "loan" is repaid and there is talk that given where the State will be in three years they will just pay it back only to borrow it again.

In their overview of the Governor's May Revision the LAO agrees that the Administration's estimate of the problem is reasonable though they note that they estimate a budget deficit approximately $3 billion higher than the Governor's May Revision of $21 billion (for a total of **$24 billion**). The Governor has since said that he agrees with the $24 billion. Moreover, the LAO also notes that even with the adoption of all of the Governor's proposals to address the General Fund shortfall, the state will still have a structural deficit "*greater than $15 billion in 2010-11, with even higher annual operating shortfalls in the subsequent three years.*" They also point out that over half of the Governor's May Revision proposals are one-time in nature.

This budget does not make any assumptions about the impact of the State FY 2009-10 Budget other than what is actually known with a degree of certainty. Consequently the budget workshop will provide an opportunity to determine how we will respond to a variety of challenges that may be thrown at us, such as: if Prop 1A is suspended and 8% of the County's property tax is "borrowed". Do we treat that as a loan and offset it with contingency or other funds, or do we believe it will not be paid back and make reductions by an equivalent amount? That could equate to up to 75 positions. The Governor has made proposals to date including eliminating CalWorks, Healthy Families, Prop 36, and State general fund to a number of health and human service programs with a corresponding loss of federal match; changes to gas tax and Prop 42 and Mental Health Managed Care funding to name a few.

No doubt there will be upcoming fiscal challenges in all program areas of the County as a result of the State budget not only in the funding of them but also in the payment of them. Throughout this year the Board has engaged in discussion about Health Services – Mental Health. At the close of FY 2007-08, $3.3M of General Fund was needed to backfill the budget and cash needs of Mental Health. This budget recommends that that $3.3 M be recorded as a contribution rather than a loan since Health Services – Mental Health has little to no ability to pay it back in the foreseeable future. There is an expectation that the Department can end FY 2009-10 on budget if that happens. However, it will need at least $2.6 M of cash on an ongoing basis to backfill the delays in State payments. Delayed or postponed payment has and will impact the Department of Transportation, Human Services, Health Services – Public Health and most likely any program dependent on State revenues.

The CAO and Auditor-Controller are working on a Cash Flow Plan to better track our cash position. While much attention has been paid to the Health and Human Services Department's cash flow there has not been a detailed evaluation of revenue collection in General Fund departments and we need to assess the cash flow in those departments as well, particularly State funds. The Auditor-Controller, with input from the CAO, has evaluated the cash position of the County and has determined that sufficient cash reserves exist such that a TRAN is not required. This decision saves the County money plus staff time. However it is very critical that we have in place by July 1, 2009 a Cash Flow Plan to track our cash situation.

The Proposed Budget represents a great deal of work by the CAO and department staff in order to address issues highlighted in a pre budget study session held on April 6th. In that session the Board directed the preparation of a better documented and more transparent budget. To that end the Board, departments and the public will find a more detailed discussion of the program, fiscal and staffing elements of county operations in this budget document. Additionally an effort to place decision making within the context of history has been attempted by showing ten year fiscal and staffing histories for each department.

Each department write up provides a detailed list of program areas with corresponding budgetary information, number of staff, extra help and overtime costs, net county cost and/or general fund contribution and furlough (mandatory time off) savings value. Ten year information is shown in a staffing allocation trend chart and a ten year fiscal history by line item class. Organizational charts show the department's staff by allocation and distribution by program. Detailed financial information is shown by fund type for the proposed budget. Additionally the Budget Basics presented at the April 6th study session has been updated to include current data and is incorporated into the Proposed Budget document. CAO staff and departments will be available to discuss this information with the Board in functional group meetings during the Budget Workshops.

Budget Workshops will begin on June 8, 2009 and potentially go through June 18, 2009. CAO staff will provide an overview on each functional group followed by individual department presentations. I recommend that you adopt the Proposed FY 2009-10 Budget at either your June 23 or June 30th meeting, and adopt your Final FY 2009-10 Budget in September.

OVERALL BUDGET OUTLOOK

The total Proposed Budget for FY 2009-10 is $468M, which is $62M (12%) less than the Final FY 2008-09 budget of $530M. The County's proposed General Fund budget, which includes discretionary funds for County services, is $200M, which is $20M (9%) less than the Final FY 2008-09 budget of $220M. The chart below provides a five-year trend of County budget changes:

Five Year Budget Growth
($$ In Millions)

	2005-06	2006-07	2007-08	2008-09	2009-10
General Fund	$206	$221	$231	$220	$200
% Growth	***18.6%***	***7.3%***	***4.5%***	***(4.8%)***	***(8.9%)***
Non-General Fund	$225	$256	$386	$310	$268
% Growth	***26.7%***	***13.8%***	***50.8%***	***(19.7%)***	***(13.5%)***
Total	$431	$477	$617	$530	$468
% Growth	***22.7%***	***10.5%***	***29.4%***	***(14.1%)***	***(11.7%)***

The General Fund growth trend has historically ranged between 4% and 7%. The Proposed Budget anticipates a reduction of 9% for the coming year. The spike in FY 2005-06 reflects the peak of property tax growth and is an anomaly, as it also included significant impacts of the State Budget actions that occurred with the Vehicle License Fee (VLF) loan gap repayment.

Non-General Fund revenues are restricted in their use for programs delivered by the Department of Transportation, Public Health, Mental Health, Community Services and Erosion Control. The changes within the Non-General Fund revenues are primarily related to changes within the Traffic Impact Mitigation (TIM) fees. These revenues are declining as the Department of Transportation (DOT) completes capital projects utilizing these funds. Other reductions include Erosion Control ($4.8M), Accumulative Capital Outlay ($3.5M), Public Health ($3M), and Mental Health ($2.4M). The Community Services fund increased $3.2M in FY 2009-10 when compared to the Final FY 2008-09 budget.

The Proposed FY 2009-10 Budget includes funding for 1834.09 full-time equivalent positions (FTEs). This represents a 160.01 reduction from the Final FY 2008-09 budget and a 204.16 reduction from the Proposed FY 2008-09 budget.

Department	**Position Additions**	**Position Reductions**	**Total**
Development Services	1.00	-2.00	-1.00
District Attorney		-0.60	-0.60
Human Services		-1.50	-1.50
Mental Health	1.85	-1.85	0.00
Probation		-0.50	-0.50
Public Health	0.15	-0.15	0.00
Transportation	2.00	-2.00	0.00
Totals	**5.00**	**-8.60**	**-3.60**

GENERAL FUND SUMMARY

The chart below reflects the increases and decreases in General Fund appropriations by expenditure class for the Proposed Budget. All expenditure classes have decreased other than contingency. Contingency increased due to the addition of approximately $1.8M in excess casino revenue placed in contingency to help offset unexpected economic impacts.

Appropriations by Expenditure Class

Expenditure Class	FY 2008-09 Budget	FY 2009-10 CAO Recm'd	$ Increase/ (Decrease)	%Increase/ (Decrease)
Salaries	$136,337,649	$122,353,186	($13,984,463)	(10.3%)
Expenses	53,266,025	51,351,945	(1,914,080)	(3.6%)
Fixed Assets	1,326,232	891,581	(434,651)	(32.8%)
Other	173,927	28,500	(145,427)	(83.6%)
Transfers	22,728,743	18,525,094	(4,203,649)	(18.5%)
Contingency	5,889,711	7,094,157	1,204,446	20.5%
Appropriations	**$219,722,287**	**$200,244,463**	**($19,477,824)**	**(8.9%)**

The chart below reflects the distribution of decreases in General Fund appropriation by functional group. The largest percentage decrease is in Land Use and Development Services, primarily in Development Services and DOT (due to reductions in the former General Services department functions). Decreases in the Non-Department (Department 15) are primarily due to reductions within the ACO fund and in pass through realignment funds. Health and Human Services has remained almost flat, with a slight decrease of $170,962.

Appropriations by Functional Group

Functional Group	FY 2008-09 Budget	FY 2009-10 CAO Recm'd	$ Increase/ (Decrease)	%Increase/ (Decrease)
General Gov't	$26,888,141	$24,122,174	$(2,765,967)	(10.3%)
Law & Justice	87,387,506	81,659,521	(5,727,985)	(6.6%)
Land/Dev Svc	25,751,546	18,855,656	(6,895,890)	(26.8%)
Hlth/Human Svc	49,287,846	49,116,884	(170,962)	(<1%)
Non Dept	30,407,248	26,490,228	(3,917,020)	(12.5%)
Appropriations	**$219,722,287**	**$200,244,463**	**($19,477,824)**	**(8.9%)**

The General Fund budget includes assumptions about the following discretionary revenue sources that are recorded in Department 15 (General Fund – Other Operations):

- Property Tax Revenues: The FY 2009-10 Proposed Budget estimate for Property Tax Revenue is $64M or 0% over FY 2008-09 year-end projections. This projection reflects the County's slowing housing market, as indicated by the flattening in assessed land values. The anticipated increase in the assessed roll is 3% however Prop 8's are expected to pull down the overall percentage increase to zero.

- Sales Tax: The FY 2009-10 Proposed Budget estimate for Sales Tax is $8.9M, which represents a 14% decrease over FY 2008-09 year-end projections. This projection is based on sales tax revenues ($6.3M) and the in-lieu property tax associated with the triple-flip ($2.6M) that grows at the rate of property taxes.

- Vehicle License Fees (VLF): The FY 2009-10 Proposed Budget for Vehicle License Fees is $17.7M which represents a 0% increase over FY 2008-09 year-end projections. The VLF is also associated with the triple flip and grows at the rate of property taxes

More information concerning these revenue sources can be found in the "General Fund – Other Operations" section of this document.

Appropriated fund balance: The primary contributors to the fund balance are savings associated with vacancies in the workforce, unused contingency appropriations, carryover contributions to capital projects, and departmental efforts to curtail expenditures. The amount of fund balance that is appropriated to balance the General Fund for FY 2009-10 is $9.7 million, or 4.8% of the proposed General Fund budget. This amount represents a $5.6M decrease from FY 2008-09. The FY 2008-09 fund balance represented 7% of the budget. After discounting carry over funding of $1.7M for contributions to capital improvement projects, and $5.5M million in contingency carry-over, the appropriation from fund balance is only $2.5M or 1% of the Proposed Budget. The fact that the county is reducing it's reliance on fund balance (one-time revenue) is a healthy budget sign. The use of fund balance to fund on-going operations is a form of deficit spending. It should also be noted that the Proposed FY 2009-10 budget includes an additional $1.8M in contingency appropriations due to increased casino funding. This $1.8M can be taken away from the $2.5M in that it is not for ongoing operations. Therefore, the Proposed FY 2009-10 budget is really only relying on $700K in fund balance to fund ongoing operations.

This estimate is subject to change with the close of the financial records for FY2008-09 in August. Any increase to the fund balance is recommended to be added to contingency to offset any State actions, primarily the potential 1A shift.

Contingency / Reserves Budgeted at 9%: The Proposed FY 2009-10 budget sets aside 9.05% (up from 8% due to increased contingency funding of $1.8M from casino funding) or approximately one month of operational costs, for "rainy-day" reserves. The contingency fund is proposed to be $7M or 4.05% of adjusted General Fund appropriations. The reserve fund is proposed to be $8.8M or 5% of adjusted General

Fund appropriations. The reserve has decreased $845,125 from FY 2008-09 due to decreased general fund appropriations. With the high degree of uncertainty we are facing it is critical to have resources to address those unknown but highly likely future fiscal challenges. What we do know is that it is highly likely that Mental Health will need $2.5 to $3 million for their ongoing cash needs and that we will experience major reductions from State budget actions. The additional contingency will be there as a safety net for us in these tough times.

Designations: The Proposed FY 2009-10 budget also includes $3.4M set aside as a designation. Originally this money was intended to fund capital projects. These are discretionary General Fund dollars. The Chief Administrative Office is recommending that these funds remain as a designation with no anticipated use in FY 2009-10 other than to potentially offset State actions or other fiscal uncertainties.

THE OUT YEARS

General Fund Five-Year Projection: Attached to this letter is the five-year projection for the General Fund. While we have made much progress in the past year, this projection indicates on going potential deficits if current fiscal conditions continue. All indications are that the fiscal situation will continue to worsen over the next year or more such as potential increases in the range of 2-4% in our PERS rates effective FY 2010-11. The, one thing we can most likely be sure of is that conditions will change, particularly through State action.

OTHER SCHEDULES

Provided in a separate section of the budget document, "Other Schedules," for the inclusion of supplemental information, is a list of proposed fixed assets and grant information included in the Proposed Budget.

BUDGET AND BEYOND

The closure of the Proposed Budget workshops will not conclude the FY 2009-10 Budget process. As soon as the State budget is concluded we will need to immediately be back before the Board identifying our strategies. Just like last year we will need to remain vigilant and as anticipatory as possible. I recognize that there is a battle weariness setting in, particularly in those departments who have experienced the greatest reductions and change; Development Services, Department of Transportation, and Health and Human Services to name a few. Staff in those departments have put in many hours of effort well above the traditional 40 hour week. We would not be where we are without their commitment and I sincerely thank them.

CONCLUSION / ACKNOWLEDGEMENTS

This year's budget document is the culmination of continuous budget review and dialogue with department heads and their staffs over the past ten months. This year, departments were diligent in keeping with the Budget Instructions that essentially limited expenditures and developed a "hold-the-line" spending plan. This budget could not have been balanced without their assistance.

I wish to acknowledge my staff, especially Laura Schwartz in her role as chief budget analyst, for their perseverance and dedication in preparing this document and the Auditor-Controller's Office for providing the budget summary schedules. I also want to thank the Board of Supervisors for their support of this office.

My staff and I look forward to working with you as you review and discuss the Proposed Budget.

Respectfully submitted,

Gayle Erbe-Hamlin

Gayle Erbe-Hamlin
Chief Administrative Officer

Current 5 year forecast

EL DORADO COUNTY CALIFORNIA
General Fund Revenue and Appropration Projection

	FY 2010	FY 2011	Projected FY 2012	FY 2013	FY 2014
REVENUES					
Property Tax	$ 58,639,224	$ 58,639,225	$ 58,639,225	$ 58,639,225	$ 58,639,225
Other Local Taxes	32,453,452	32,457,052	32,460,724	32,464,469	32,468,290
Licenses/Permits/Franchises	4,362,072	4,427,361	4,494,514	4,563,010	4,632,875
Fines/Forfeitures/Penalties	894,899	901,258	907,711	914,259	920,905
Use of Funds/Property	413,288	428,886	429,491	430,101	430,718
Intergovernmental Revenue	55,106,675	56,054,869	57,319,321	58,743,720	60,074,085
Charges for Service	15,133,862	15,326,756	15,475,354	15,627,010	15,781,344
Other Revenue	3,124,391	3,129,727	3,129,794	3,129,862	3,129,930
Transfers from Other Funds	19,511,200	19,682,200	19,835,735	19,993,294	20,154,984
Total Current Revenues	**$ 189,639,063**	**$ 191,047,335**	**$ 192,691,869**	**$ 194,504,950**	**$ 196,232,356**
Appropriation from Fund Balance	9,760,277	7,094,157	5,450,000	5,600,000	5,740,000
Total Revenues	**$ 199,399,340**	**$ 198,141,492**	**$ 198,141,869**	**$ 200,104,950**	**$ 201,972,356**
Discretionary Revenues	$ 118,794,357	$ 116,274,772	$ 114,779,585	$ 115,081,029	$ 115,374,990
Departmental Revenues	80,604,984	81,866,719	83,362,284	85,023,921	86,597,366
Total Revenues	**$ 199,399,341**	**$ 198,141,492**	**$ 198,141,869**	**$ 200,104,950**	**$ 201,972,356**
APPROPRIATIONS (Category)					
General Government	$ 24,122,176	$ 25,271,613	$ 25,898,364	$ 26,541,262	$ 27,200,726
Law and Justice	81,659,521	85,164,009	87,341,267	89,575,303	91,867,605
Development Services	18,855,656	19,686,802	20,212,547	20,752,442	21,306,872
Health/Human Services	49,116,884	50,578,715	51,972,076	53,404,139	54,875,986
Nondepartmental	26,490,228	20,868,828	21,294,153	21,716,177	22,115,077
Total Appropriations	**$ 200,244,465**	**$ 201,569,967**	**$ 206,718,407**	**$ 211,989,323**	**$ 217,366,266**
APPROPRIATIONS (Object)					
Salaries/Benefits	$ 122,353,188	$ 127,833,664	$ 131,017,006	$ 134,279,931	$ 137,624,429
Operating Expenses	51,351,945	52,837,556	54,367,735	55,943,819	57,567,186
Fixed Assets	891,581	918,328	945,878	974,255	1,003,482
Other Financing Uses	28,500	-	-	-	-
Transfer to Other Funds	18,525,094	14,530,418	14,787,788	15,051,319	15,321,169
Appropriation for Contingency	7,094,157	5,450,000	5,600,000	5,740,000	5,850,000
Total Appropriations	**$ 200,244,465**	**$ 201,569,967**	**$ 206,718,407**	**$ 211,989,323**	**$ 217,366,266**
Revenue Surplus/(Shortfall)	**$ (845,125)**	**$ (3,428,475)**	**$ (8,576,538)**	**$ (11,884,373)**	**$ (15,393,910)**
Designated for Capital Projects	$ 3,416,150	$ 3,416,150	$ 3,416,150	$ 3,416,150	$ 3,416,150
General Reserve	$ 9,607,776	$ 8,762,652	$ 9,121,814	$ 9,359,482	$ 9,603,511
$ Needed for 5% General Reserve	$ 8,762,652	$ 9,121,814	$ 9,359,482	$ 9,603,511	$ 9,854,072
Additional Funds to Reach 5%	**$ 845,125**	**$ (359,163)**	**$ (237,667)**	**$ (244,029)**	**$ (250,562)**
Total Revenue Surplus/Shortfall	**$ (0)**	**$ (3,787,638)**	**$ (8,814,206)**	**$ (12,128,402)**	**$ (15,644,472)**

Prepared by: Laura Schwartz

x